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World Financial Markets

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Crossroads Europe, 1

Europe's economic policies, 3

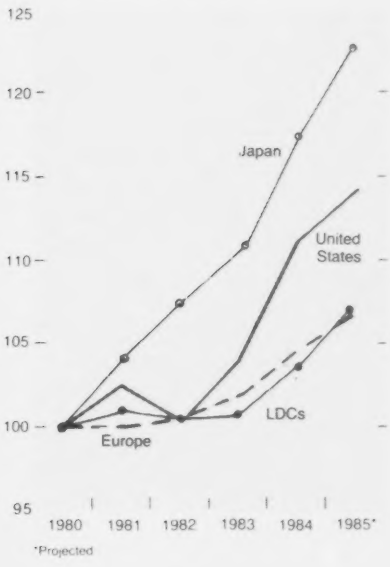
Prices and profits in Europe, 5

Europe's output recovery, 6

Europe's role in global adjustment, 7

Statistical appendix, 9

Chart 1
Real GNP
index numbers 1980 = 100



Crossroads Europe

Pressures are building on Europe's policymakers to modify their strategy for economic recovery. Opinion polls and election results are sending an insistent message: joblessness cannot be tolerated without limit in the pursuit of structural adjustment or the definitive elimination of inflation. Policymakers also must cope with the U.S. economic slowdown. Exports to the United States can no longer be counted on to underwrite further recovery in Europe; indeed, they are virtually bound to become a drag on the European economy as the inevitable correction of the U.S. trade deficit gets under way. Already, Europe's recovery seems to have stumbled: Germany's real GNP was down in the first quarter of 1985 and French output showed no gain. Of the major countries, only Britain has reported continuing growth.

Something has to be done — and done soon — to remedy the stagnation in Europe's domestic demand. That stagnation has been aggravated not only by bad weather, but also by Europe's policies. To be sure, the policies have a number of successes to their credit: inflation is much lower than just a few years ago; business profitability has improved; government borrowing has been contained; industrial output is up; and most countries that formerly ran current account deficits now enjoy surpluses.

However, by U.S. or Asian standards, Europe's recovery from the recession of the early 1980s has been woefully slow and incomplete (see Chart 1). Control of inflation has been the top priority in Europe. Economic growth is being fostered by structural adjustments designed to increase labor market flexibility, encourage innovative small and medium-sized industries, privatize functions ill-suited to the public sector, and curb budget deficits so as to lower interest rates and boost investment. Such reforms are naturally slow to yield positive employment results. Thus, Europe's total job count is no higher today than in 1970, whereas the U.S. economy has added 30 million jobs. European job opportunities have expanded some during the past year or so, but not enough to reduce unemployment (see Chart 2).

The outlook for Europe's jobless is further dimmed by the uncertain course of the U.S. economy, Europe's key export market. U.S. real GNP growth has been just 2.3% over the past four quarters. U.S. domestic demand has been somewhat stronger, rising 3.4% and keeping imports at a high level. At the same

Chart 2
Unemployment
as percent of labor force

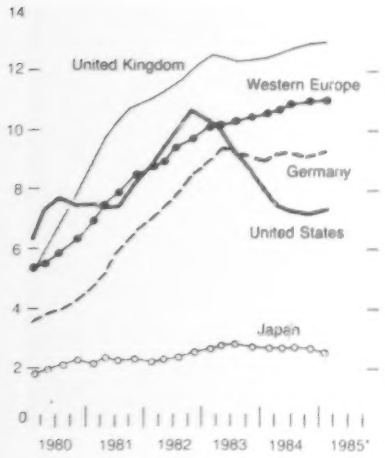
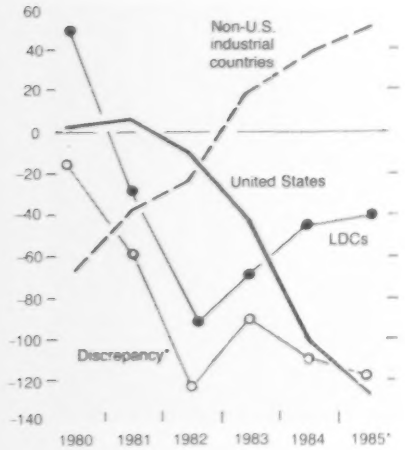


Chart 3
Current account balances
in billions of dollars



* World current account discrepancy equals total recorded positions for the United States, other industrial countries, and LDCs. Implicitly, it includes the positions of China, Eastern Europe, and the Soviet Union.

time exports have fallen, ballooning the U.S. foreign trade deficit to an annual rate of $134 billion for the first four months of 1985.

Correction of the trade deficit now is moving higher on the list of U.S. priorities, not so much because the deficit implies dangerous dependence on continued inflows of foreign capital, but because it is cutting the output, employment, and profits of key segments of U.S. agriculture, mining, and manufacturing. The resulting groundswell of U.S. protectionism is unparalleled in the postwar period. Its dire potential consequences for the world economy at large, and for LDCs in particular, can be held in check only by measures that narrow the deficit while keeping up the momentum of economic recovery among industrial countries as a group. As yet, this paramount global challenge is not being taken up. Even as the U.S. economy slows, the evidence points to simultaneous slowing in Japan and Europe.

Equally disquieting, Japan and Europe are reluctant to accept the erosion of their present trade surpluses that is the inescapable counterpart of reduction in the U.S. trade and current account deficits (see Chart 3). Over a period of time the trade deficit needs to be brought down by as much as $100 billion per annum. Lower oil prices may shift some part onto OPEC's shoulders. Some Asian LDCs also could get by with less favorable trade positions. However, for several years ahead, most developing countries have little such leeway. The main burden must necessarily fall on Japan and Europe, however much this may offend mercantilist values.

Thus, Europe's job strategy now must contend with a new adjustment imperative. The external stimulus from the U.S. economy is being thrown into reverse. True, Europe's consumption and investment may gain if the United States puts its fiscal house in order and the dollar and European interest rates come down. However, neither may come down much as U.S. interest rates fall, to judge from recent experience. Moreover, as the OECD questions in its latest *Economic Outlook*, there can be no presumption that the terms-of-trade and interest-rate boost to Europe's domestic demand will outweigh the loss of net exports. Indeed, the likelihood has to be faced that the present European emphasis on microeconomic supply-side initiatives, while certainly much needed, cannot alone solve the unemployment problem.

Appropriate demand management is the crucial dimension currently missing in Europe's strategy. Fiscal consolidation has been important, but should hardly be pressed forward without regard for circumstances or results. After all, demand adequacy is not guaranteed merely by lower interest rates, as the 1930s' experience should have taught for all time. Thus, in Germany and other countries where inflation is subdued and fiscal consolidation today is far advanced, the surest way to boost demand lies in relaxation of the fiscal stance by tax cuts. Where inflation trends are troublesome — as in Britain — or fiscal deficits still are large — as in the Netherlands — any such relaxation has to be approached more cautiously. For them, the prudent course may run through tax cuts financed by the sale of public-sector assets or through the enhanced incentives to the private sector that balanced reductions in the burden of taxation and public spending could provide.

Unless Europe overhauls its policy approach along these lines, U.S. action to remedy its own trade problems risks setting the world economy on a dangerously deflationary course. The risk would escalate were Japan also to reject policies

Table 1

General government financial balances*

percent of GNP

	1985**	Changes since 1982*** Actual	Structural
United States	—3.7	0.1	—2.0
Japan	—1.4	2.2	2.1
Germany	—1.5	1.9	2.1
France	—3.2	—0.5	1.5
United Kingdom	—3.6	—1.3	—1.7
Italy	—13.1	—0.5	1.5
Belgium	—10.3	2.3	2.6
Denmark	—3.0	6.3	3.6
Netherlands	—5.6	1.4	0.3
Spain	—4.5	0.8	1.1
Sweden	—3.0	3.3	1.9

*Consolidation of public-sector balances at all levels of government, including social security but before asset sales and excluding state-owned commercial enterprises.

**Positive number indicates surplus.

***Positive number indicates change toward restriction.

Source: OECD.

Chart 4

Real investment

gross fixed capital formation

index numbers 1980 = 100

that expand domestic demand. And the risk would compound yet more if Japan and Europe procrastinate further on substantive measures to open their internal and external markets to U.S. and other competitors. Such procrastination would be the ally of U.S. protectionism, multiplying the probability of stepped-up U.S. controls on both trade and international investment. To forestall that danger, it is vital that pending U.S. fiscal restraint be matched by constructive policies in Japan and Europe, including reassessment of the present macroeconomic policy mix. This is very much a matter of collective international responsibility on the part of the United States, Japan, and Europe — for their own benefit as well as for economic progress in the developing world. For Europe itself, modifying the mix is the only promising way to sustain hard-won supply-side progress and to brighten the outlook for its 20 million jobless.

Europe's economic policies

Whether from shared philosophy or mutual necessity, most European governments have embraced three main principles of economic management since the second oil shock: first, structural adjustment to boost general economic efficiency, international competitiveness, and productive employment; second, reduction of budget deficits to assist monetary control and to limit public-sector preemption of economic resources; and third, monetary discipline of inflation to afford a stable environment for business investment.

These priorities were born of the 1970s' disappointment with policies for social welfare provision and the maintenance of full employment — in the private sector by regulation and subsidy; in the public sector at almost any budgetary cost. Although the welfare state and public-sector employment duly expanded, the overall growth of output and productivity deteriorated, private investment dwindled, and net job creation fell short of expansion in the work force. Subsidies and transfer payments led to a rapid buildup of public debt, contributing to either the reality of inflation, or its potential.

Europe's structural adjustments since the second oil shock have been considerable, though hardly exhaustive. The growth of transfer payments and other social spending has been held down in some degree; and a more realistic assessment of the international competitiveness of Europe's traditional industries has taken hold. Much outmoded capacity has been eliminated, with substantial cuts in public subsidies to the sectors concerned. But there still is far to go. Agricultural subsidies have yet to be tackled in any meaningful way. Meanwhile, overall budgetary savings are lessened by stepped-up subsidies to firms representing themselves as "high-tech" national champions. Newly fashionable "small" and "mid-sized" enterprises also are beginning to enjoy such largess.

On the employment front, Europe has made a start on reforms that promote employers' flexibility and the smoother functioning of labor markets. The 1984 agreement to cut the workweek gave German employers permission to structure their labor use more efficiently. With varying degrees of union support, many European countries are moving the same way, and also are making it somewhat easier for employers to lay off workers and to use part-time help. These changes should improve job prospects in the longer term by reducing the existing incentives for employers to minimize payrolls. Too often, at present, any increase in sales is met by more intensive use of existing labor, or

Table 2

Three-month Eurocurrency interest rates

percent per annum

	June 21, 1985	Changes since June 1984
Dollar	7.7	—4.4
Japanese yen	6.2	0.0
German mark	5.5	—0.4
French franc	10.4	—1.9
British pound	12.5	3.1
Italian lira	13.8	—1.5
Belgian franc	8.7	—2.8
Dutch guilder	6.6	0.5

Table 3

Consumer prices

percent changes, Dec-Dec

	1980	1984	1985
United States	12.4	4.0	3.5
Japan	7.0	2.8	2.3
Germany	5.5	2.0	2.3
France	13.9	6.7	6.0
United Kingdom	15.1	4.6	5.5
Italy	21.3	9.4	8.0
Belgium	7.5	5.4	5.0
Denmark	10.9	5.6	4.0
Netherlands	6.7	2.8	2.9
Spain	15.3	9.0	9.0
Sweden	14.0	8.2	6.5

Table 4

Export and import prices and the dollar

	Percent changes, 1983 Dec-1984 Dec		
	Export prices*	Import prices*	Dollar exchange rate
United States	—0.6	0.2	—
Japan	—1.1	0.0	5.7
Germany	2.3	4.5	12.9
France	9.9	10.5	13.4
United Kingdom	9.4	11.4	20.9
Italy	6.9	8.0	14.7
Belgium	5.4	8.0	11.5
Denmark	4.3	4.9	11.8
Netherlands	4.8	2.4	13.5
Spain	9.6	0.0	8.8
Sweden	7.1	4.5	9.9

*In local currency.

else is foregone altogether because of the risk of being saddled with excess labor in the event that sales subside. Flexibility would encourage hiring to meet sales demands of uncertain permanence in a changing world market place. The financial deregulation now under way in Europe also should be helpful: small innovative firms should find it easier to fund expansion of their operations. U.S. experience strongly suggests that such small enterprises, provided they are genuinely unfettered and not cossetted by bureaucratic "promotion," are a more promising source of net job creation than are large firms or the public sector.

In fiscal affairs, Europe has done much to correct the excesses of the 1970s. Some countries — such as Britain, Germany, and Denmark — have greatly reduced their deficits by any yardstick. Virtually all European countries are now reducing deficits as measured by cyclically adjusted "structural" budget balances (see Table 1). Britain embarked on a severe fiscal squeeze after 1979, tightening policy four years in a row before easing considerably in 1983. Germany delayed the launch of its fiscal consolidation until 1982. Three years later, with its structural balance now in substantial surplus, Germany still has not eased up — and, if hard-line views prevail, will ease only slightly through 1988. Elsewhere in Europe, most countries judge further fiscal consolidation necessary because their deficits remain large.

Throughout Europe, below-trend economic growth in the 1980s has depressed government revenues at unchanged tax rates, while rising unemployment has pushed up spending. Getting spending down again, as a share of GNP, is proving exceedingly difficult. Consequently, deficit reduction has required increased tax rates, bracket creep, or other revenue enhancements — measures at odds with Europe's supply-side ambitions from a growth point of view. This is a conflict recognized and regretted by most European governments. Another conflict — less generally accepted, indeed vehemently rejected by some — lies between deficit reduction and the sustenance of consumption or investment demand.

Fiscal consolidation has provided a clear gain for Europe in managing monetary policy. The payoff in terms of reduced inflation has been impressive, although the U.S. counterexample demonstrates that effective inflation control is entirely possible without such consolidation. Nor has Europe's fiscal consolidation fulfilled official expectations as a stimulus to business investment. Investment has recovered considerably from its cyclical lows in most European countries, but has grown much less than in the United States and is no higher than the levels attained in Europe prior to the second oil shock (see Chart 4). The problem is that investment activity depends on prospective real profits after tax. Interest rates are one determinant in the prospective profit assessment, but appear less important than the nexus of confidence, managerial flexibility, the tax regime, and the state of demand. On these four counts Europe has not rated well in recent years compared with either the United States or its own previous postwar record, especially concerning the state of demand.

Nonetheless, official opinion in Europe typically insists that all would be well were real interest rates to revert to a normal level, allegedly about 3%. The key obstacle is said to be the strength of the dollar. As European officials see it, this has threatened imported inflation in Europe, obliging the authorities to maintain domestic interest rates higher than they would otherwise be

Table 5

Real effective exchange rates

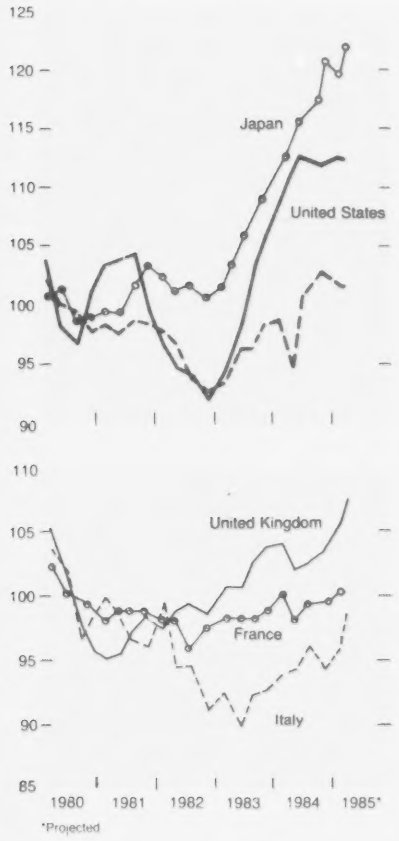
	*June 21, 1985**	*Percent change since April 1983*
United States	122.0	10.3
Japan	92.5	—3.8
Germany	93.9	—7.1
France	99.0	2.5
United Kingdom	97.0	6.8
Italy	104.0	3.7
Belgium	89.1	—4.3
Denmark	97.7	—3.3
Netherlands	93.6	—8.2
Spain	98.6	7.6
Sweden	101.2	12.8

*1980-1982=100.

Chart 5

Industrial production

index numbers 1980 = 100



*Projected

and, in consequence, depressing investment. In addition, it is claimed, because those domestic rates have generally not been as high in real terms as in the United States, savings have drained out of Europe to help finance the U.S. current account deficit, depriving Europe of the wherewithal to invest at home.

However, this contention ignores the preference, especially evident among German and British officials, for moderate economic growth of the magnitude that has, in fact, been achieved over the past few years. Their monetary targets have generally been met with a fair degree of precision. Had high U.S interest rates, or a perceived need to prevent further depreciation of European currencies, entailed significantly tighter monetary policies than originally intended, monetary growth would have run distinctly below target. This has not typically been the case. Still less has there been any major or sustained shortfall below the midpoint of target ranges, ostensibly the best estimate of appropriate monetary growth. For example, Germany's central bank money grew 4.6% in 1984, against a target range of 4%-6%, and continues close to the top of its present 3%-5% target. In Britain, sterling M3 shows 12% growth over the latest 12-month period, against a current target range of 5% to 9%. Concern for monetary discipline has joined with the still-strong dollar to inhibit interest rate declines in Europe commensurate with the steep downturn of U.S. rates this past year (see Table 2).

In fact, the strong dollar and superior U.S. economic performance have inspired a boom in Europe's exports and business profits since the recession. The risk now is that this external prop to Europe's recovery will be knocked away, with inadequate domestic replacement forthcoming.

Prices and profits in Europe

The most constructive feature of Europe's economic performance since the second oil shock has been the decline in inflation. Several countries that exhibited rapid inflation in the 1970s, and even as recently as 1983 — France and Italy, for example — are now recording much better price figures (see Table 3). Countries with a strong anti-inflationary tradition have substantially held on to, or have bettered, past performance. Only in the United Kingdom has inflation accelerated materially above its cyclical low of 3.7%, to a current rate of 7%. The recovery of sterling and stiff U.K. interest rates since last February should lower Britain's inflation later this year.

The reduction of inflation in Europe has been achieved in the face of major depreciation of European currencies vis-à-vis the dollar and the yen. Weakness in world commodity prices in dollar terms has caused Europe's import prices to rise much less than the appreciation of the dollar alone would suggest (see Table 4). Quite as important, nominal wage increases have slowed under the stress of unemployment and, particularly in higher inflation countries, through the weakening of wage indexation. Fortunately, the decline in general price inflation in Europe has not squeezed business profits: the strength of Europe's exports has allowed a faster increase in export prices than in domestic prices. Indeed, across Europe, profits have surged. In Germany, for example, business profits rose from just over 20% of GNP in 1982 to over 23% by late last year.

Principally responsible was the dramatic decline in the inflation of unit labor costs during the last recession. Germany's unit labor costs in manufacturing were rising by over 11% late in 1980 on a 12-month

Table 6

Sources of real GNP growth in 1984

	Percent change	Change as percent of 1983 GNP: Domestic demand	Change as percent of 1983 GNP: External demand
United States	6.8	8.6	—1.8
Japan	5.7	3.7	2.0
Germany	2.6	1.6	1.0
France	1.6	0.5	1.1
United Kingdom	2.3	2.8	—0.5
Italy	2.6	2.8	—0.2
Belgium	2.2	1.1	1.1
Denmark	4.0	4.6	—0.6
Netherlands	2.2	2.1	0.1
Spain	2.2	—0.9	3.1
Sweden	3.5	2.9	0.6

Table 7

Exports to the United States

derived from U.S. import data, CIF valuation percent changes in dollar values from corresponding periods one year earlier

	Jan-Dec 1984	Jan-Apr 1985
Japan	38.6	28.9
Germany	34.6	12.3
France	35.0	14.5
United Kingdom	16.6	—9.6
Italy	46.0	21.4
Belgium	31.0	—5.8
Denmark	34.8	25.8
Netherlands	37.5	—11.7
Spain	55.9	—13.2
Sweden	34.4	24.5
All countries	26.4	4.9

Table 8

Current account balances

billions of dollars

	1980	1984	1985
United States	1.9	—101.6	—127.0
Japan	—10.7	35.0	45.0
Germany	—15.8	6.2	9.0
France	—4.2	0.0	0.0
United Kingdom	8.1	0.0	1.0
Italy	—9.8	—2.4	—3.0
Belgium	—4.9	—0.9	—1.0
Denmark	—2.4	—1.6	—1.6
Netherlands	—2.6	4.9	6.0
Spain	—5.2	2.1	1.5
Sweden	—4.5	0.1	—0.5

basis, but have actually been falling since the second half of 1983. Subdued cost inflation has persisted in most countries despite the moderate pickup in output. Britain is the main exception. U.K. unit labor costs were up nearly 6% in the first quarter of this year, a sharp acceleration from the 2% increase recorded in 1983. That low figure greatly benefited from fast-rising productivity. Although productivity gains have now slowed down in Britain, they continue to contribute significantly to the general slowing of unit labor costs in Europe. Unfortunately, the increase in labor productivity and recovery of profits have come about with stagnating employment at relatively high wage levels rather than expanding employment at more moderate wages. Still, the lower level of most European wage settlements, in both nominal and real terms, is a healthy development.

Europe's output recovery

The recovery in European output has been less than spectacular. By and large, the key German economy has followed the U.S. cycle quite closely, but in relatively subdued fashion. Tax incentives for business investment helped propel Germany out of recession toward the end of 1982. Economic growth continued at a fair pace until the spring of 1984, when labor disputes over a shorter workweek sharply curtailed industrial output, especially in the automobile industry. Industrial production bounced back in the third quarter and strengthened further in the last months of 1984. By that time, Germany's industrial output stood 11% higher than at the end of the recession in 1982. Still, that was no great recovery compared with the 21% run-up in the United States or the 20% gain in Japan (see Chart 5). Moreover, including construction, German industrial production during January-April 1985 slipped below the level of the previous four months.

Other Continental European economies have been much influenced by events in Germany. For example, the labor strikes in Germany slowed activity in the automobile sector throughout Europe because of the high interdependency among factories. Economic growth has been further held down in some countries by austerity packages designed to reduce current account deficits or limit the growth of public-sector budget deficits. In France, for example, industrial output showed virtually no increase from late 1983 through fourth-quarter 1984. In Belgium, it rose just 3.5%

In other countries, such as Denmark, the Netherlands, and Sweden — and also, until last October, Italy — output growth has been somewhat stronger. But wherever it has materially exceeded the growth of the linchpin German economy, there have been consequences for external trade balances. Moreover, with no realignment of EMS currency relationships since March 1983, real exchange rates have appreciated in the high inflation countries despite the strength of the dollar (see Table 5). Such appreciation is now beginning to curtail their exports to other European markets and to increase their imports. Currency realignment would be a partial corrective, but not the best solution. German economic growth has to accelerate appreciably if most European countries are to attain growth at the higher pace necessary to sustain employment with acceptable external balances.

In the United Kingdom, the initial revival of domestic demand following the recession owed much to a fall in personal savings encouraged by the drop in inflation. Subsequently, however, planned and un-

Table 9

Real GDP

percent changes

	1983	1984	1985
United States	3.7	6.8	2.9
Japan	3.4	5.7	4.5
Germany	1.3	2.6	2.4
France	0.7	1.6	1.6
United Kingdom	3.2	2.3	3.0
Italy	—1.2	2.9	2.2
Belgium	0.5	2.2	1.9
Denmark	2.5	4.0	2.5
Netherlands	0.8	1.7	2.0
Spain	2.0	2.2	2.0
Sweden	2.3	3.0	2.3

Table 10

Illustrative counterparts of U.S. current account adjustment

	Current account balances, $ billion			
		1989		
	1985	Case 1	Case 2	Case 3
United States	—127	—130	—120	—60
Other industrial countries	50	80	60	5
Japan	42	60	55	20
Europe	14	30	10	—12
France	0	—2	—1	—1
Germany	9	24	10	—8
Italy	—3	—2	—1	—1
United Kingdom	1	—3	—2	—1
LDCs	—40	—60	—50	—55
OPEC	—13	—30	—25	—20
Non-OPEC	—27	—30	—25	—35
Discrepancy*	—117	—110	—110	—110

*World current account discrepancy equals total of recorded positions of United States, other industrial countries, and LDCs. Implicitly it includes the positions of China, Eastern Europe, and the Soviet Union.

planned relaxation of macroeconomic policies has played a key role in sustaining the recovery. At least until recently, the U.K. authorities have been willing to foster strong monetary growth. They also provided considerable fiscal stimulus in 1983 and 1984. In addition, external demand has been shored up by sterling's depreciation since 1981. Thus, despite the miners' strike and cold weather this past winter, U.K. economic activity proceeded at a healthy pace. Export orders strengthened and domestic activity held up well. It is this persistent strength in domestic demand that most distinguishes U.K. experience from that of Germany.

For Europe as a whole, exports were already a principal factor in growth during 1984 (see Table 6). They have taken over yet more of the driver's function in recent months. Export growth to the United States has been particularly strong (see Table 7), helping many European economies into equilibrium or surplus in their external accounts (see Table 8). Recent statistics show that exports continue strong. For example, in Germany during the first four months of 1985 the volume of foreign manufactures orders rose 4.6% over late-1984 levels, marking up a 12-month increase of 13%.

By contrast, domestic demand is stagnant across much of Continental Europe. Germany's domestic manufactures orders were almost flat in the first part of 1985 in comparison to both late-1984 and year-earlier levels. In many countries retail sales in early 1985 were only slightly above their levels of last September in volume terms; imports have been likewise sluggish.

Despite this domestic weakness, Europe should be able to continue modest overall economic growth this year (see Table 9), chalking up further advances in the U.S. and world markets, and shifting European current account positions further toward surplus. Inflation rates should remain low. Unfortunately, Europe's unemployment count may decline little since projected economic growth barely exceeds the likely increase in productivity.

Europe's role in global adjustment

The dollar's stubborn strength in the face of steeply declining U.S. interest rates is a continuing frustration to Europe. Calls have rung out for exchange market intervention to bring the dollar down. However, intervention cannot by itself affect the level of exchange rates durably unless it amounts to an effective shift in monetary policy, through so-called unsterilized intervention. To be effective in bringing down the dollar, such intervention would have to achieve a substantial easing of U.S. monetary policy and a tightening of policy abroad. Unless global inflation concerns are to be thrown overboard, it is hard to conceive of intervention that leads simultaneously to easier U.S. monetary policy, a lower dollar, and easier monetary policy abroad. Yet without monetary easing abroad, intervention advocates would have no hope of spurring investment as desired. In any event, the belief is misplaced that a lower dollar is the prerequisite to stronger European growth. In fact, in a low-inflation world a lower dollar is more plausibly a consequence of an acceleration in European growth achieved by other means.

Domestic stimulus to Europe's economic growth is especially urgent because of the desirability of multilateral steps to reduce the U.S. current account deficit. Action on the part of the United States alone is only too likely to lead to depression in the world economy. Attempting to talk the dollar down could precipitate a collapse of investor

Table 11

Medium-term scenarios for the U.S. trade and current accounts

percent changes, except as noted

	1984	1985	1986	1987	1988	1989
Case 1: extended U.S. fiscal restraint with weakening world economy						
U.S. trade balance, CIF ($ bil)	—123	—136	—135	—122	—119	—121
Exports ($ bil)	218	216	232	246	256	267
Imports ($ bil)	—341	—352	—367	—368	—376	—388
Current account ($ bil)	—102	—127	—125	—117	—120	—130
Foreign liabilities, net of assets ($ bil)	—30	97	222	339	459	589
Net debt-export ratio		9	42	72	99	127
U.S. real GNP	6.9	2.9	2.2	0.9	2.2	2.7
Domestic demand	8.7	3.4	1.7	0.7	2.1	2.7
Unemployment rate	7.4	7.3	7.6	8.7	9.1	9.3
Consumer prices	3.2	3.6	2.7	2.3	1.6	2.1
6-month Treasury bill (%)	9.8	8.0	6.4	4.7	4.1	4.3
Effective dollar, nominal, 1980-1982=100	122	128	124	124	124	124
Non-U.S. OECD real GNP	3.5	3.1	2.6	2.3	1.9	1.9
Europe	2.3	2.3	2.0	1.8	1.5	1.5
Japan	5.8	4.5	3.5	3.0	2.5	2.5
Non-U.S. consumer prices	6.2	5.8	4.1	3.6	3.3	3.3
Case 2: moderate U.S. fiscal restraint with compensating foreign stimulus						
U.S. trade balance, CIF ($ bil)	—123	—136	—130	—111	—107	—106
Exports ($ bil)	218	216	239	264	282	299
Imports ($ bil)	—341	—352	—369	—375	—388	—405
Current account ($ bil)	—102	—127	—121	—115	—116	—120
Foreign liabilities, net of assets ($ bil)	—30	97	218	333	449	569
Net debt-export ratio		9	41	67	91	113
U.S. real GNP	6.9	2.9	2.7	2.2	2.5	2.5
Domestic demand	8.7	3.4	2.1	1.9	2.4	2.4
Unemployment rate	7.4	7.3	7.4	7.8	8.0	8.3
Consumer prices	3.2	3.6	3.3	3.7	3.2	3.1
6-month Treasury bill (%)	9.8	8.0	6.8	7.1	6.2	5.9
Effective dollar, nominal, 1980-1982=100	122	128	120	118	118	118
Non-U.S. OECD real GNP	3.5	3.1	3.0	3.0	3.0	3.0
Europe	2.3	2.3	2.3	2.3	2.3	2.3
Japan	5.8	4.5	4.3	4.3	4.3	4.3
Non-U.S. consumer prices	6.2	5.8	4.5	4.1	4.1	4.1
Case 3: moderate U.S. fiscal restraint with higher European and Japanese growth						
U.S. trade balance, CIF ($ bil)	—123	—136	—125	—91	—64	—54
Exports ($ bil)	218	216	245	285	324	353
Imports ($ bil)	—341	—352	—369	—375	—389	—407
Current account ($ bil)	—102	—127	—115	—93	—72	—60
Foreign liabilities, net of assets ($ bil)	—30	97	212	305	377	437
Net debt-export ratio		9	40	59	71	79
U.S. real GNP	6.9	2.9	2.8	2.3	2.4	2.5
Domestic demand	8.7	3.4	2.1	1.8	1.9	2.2
Unemployment rate	7.4	7.3	7.3	7.7	8.0	8.2
Consumer prices	3.2	4.6	4.2	5.8	6.6	5.7
6-month Treasury bill (%)	9.8	8.0	6.8	7.6	7.2	6.3
Effective dollar, nominal, 1980-1982=100	122	128	120	114	110	110
Non-U.S. OECD real GNP	3.5	3.1	3.5	4.1	4.0	3.8
Europe	2.3	2.3	3.0	3.3	3.3	3.0
Japan	5.8	4.5	4.5	6.0	5.5	5.5
Non-U.S. consumer prices	6.2	5.8	4.5	4.5	4.5	4.5

confidence. And, besides being difficult to accomplish, deep and abrupt cutting of the U.S. budget deficit would pose grave dangers if Europe and Japan continue to insist on export-led growth for their own economies. A fiscally induced slowdown in U.S. economic activity would quickly put the brakes on activity abroad. Because deterioration in economic performance abroad would hit U.S. exports and also limit any decline in the dollar, shrinkage of the U.S. trade deficit would require still weaker economic growth in the United States.

A vicious circle could ensue, as illustrated by Case 1 in Tables 10 and 11. The U.S. trade deficit would narrow somewhat but without improvement in the current account deficit. Worse, U.S. trade gains would be at the expense of the trade and current account positions of developing countries. Although the LDCs would obtain some relief of debt-servicing costs from lower interest rates, their scope for economic growth — already modest — would be further impaired. Thus sole reliance on a prescription for U.S. austerity would yield a hard landing not only for growth of the U.S. economy but for other economies too, including Europe.

The outlook for the world economy would be less unpleasant were Europe and Japan to undertake sufficient domestic stimulus to compensate for the loss of external stimulus from U.S. growth, thereby keeping their output growing at current rates. Compared with the subpar growth path of Case 1, the maintenance of foreign economic growth close to its potential rate, as in Case 2, would weaken the dollar further and require less deflation or budget cutting in the U.S. economy. That would bolster U.S. economic growth because rising U.S. exports would lessen the need to squeeze domestic demand. Europe and Ja-

pan would have to accept some reduction in their trade surpluses but, in recompense, they would enjoy less inflation and less dismal employment prospects. Since the U.S. economy also would be growing more strongly, output and employment possibilities would improve in all the industrial countries, providing firmer markets for LDCs.

The world economic climate would improve even further were Europe and Japan to undertake expansionary measures that for three or four years secure growth exceeding their long-term potential. If growth in the industrial countries outside the United States were to run somewhat above the pace achieved in 1984, as in Case 3, it would allow some modest, yet by no means overambitious, narrowing of the potential output gap that has built up so far in the 1980s. Specifically, in the case of Europe, this might call for average economic growth slightly exceeding 3% and providing roughly one full percentage-point decline in European unemployment rates by the end of the decade. Such a step-up in economic growth in Europe, with a companion speedup in Japan to annual growth of about 5.5% would lead to an even weaker dollar than in Case 2. If further accompanied by liberalization of trade policies, so that U.S. agricultural and manufacturing products could more effectively compete, the U.S. current account deficit would decline substantially.

In sum, shifting any significant part of the U.S. current account deficit to the other industrial countries is difficult or impossible as long as their domestic demand remains weak and their economic growth is export-led. Reduction of the U.S. current account deficit requires not only a lower dollar but also stronger economic growth abroad. The dollar will not come down significantly in the absence of attractive alternatives. With growth in Europe and Japan merely moderate, any dollar decline is likely to be limited and the U.S. current account deficit will continue to increase or stabilize at best. Thus, correction of the U.S. external imbalance, so necessary to arrest the protectionist trend in the world trade order, is a call for the opening of foreign markets and expansionary economic policies in Europe and Japan, as much as for restraint in the United States.

Much official opinion in Europe still maintains that Europe's policies are already as expansionary as is prudent in the face of structural problems. In particular, there is a paralyzing aversion to significant fiscal stimulus for expansion following a period of several years in which credibility has been reckoned to stand or fall with progress in fiscal consolidation. Yet, there is no evidence to support the complacent view that some inevitable decline in U.S. interest rates and the dollar will stimulate Europe's domestic demand sufficiently to compensate for the deflationary effects of a softening U.S. economy. Fiscal stimulus, especially in countries enjoying structural budget surpluses, is left as the only feasible way forward for Europe to create jobs speedily and in substantial numbers.

While the U.S. fiscal expansion of the past few years is not fully exportable to Europe and Japan, they will have to replicate some features of the U.S. recovery on a moderate scale if industrial-country expansion is to be sustained. What is required in Europe is not a massive fiscal program pretending to wipe out unemployment overnight without provoking high inflation, but rather a modest fiscal boost that nudges European growth rates up to the 3% to 3.5% range for the rest of the decade.

Growth in that range would require sustained growth of the U.K. economy at about the current pace, plus distinct acceleration in German growth above 3%. Complemented by intensified structural-adjustment and supply-side policies, that would cut Europe's jobless count by up to two million cumulatively, representing just one-tenth of the present unemployment total. The inflationary impact should surely be slight, especially with a falling dollar. This is the way that Europe can best make a significant and constructive contribution, not only to reducing the U.S. current account deficit without a world economic slowdown, but also to LDC economic prospects and a more hopeful future for Europe itself.

Statistical appendix

For key to data in tables see pages 18 and 19.

Nominal effective exchange rates, 10

Real effective exchange rates — industrial countries, 10

Real effective exchange rates — developing countries, 11

International banking market size, 11

International bond issues and bank credits, 12

Eurocurrency deposit rates, 13

International bond yields, 13

Central bank discount rates, 14

Day-to-day money rates, 14

Treasury bill rates, 15

Representative money market rates, 15

Commercial bank deposit rates, 16

Domestic government bond yields, 16

Commercial bank lending rates to prime borrowers, 17

Domestic corporate bond yields, 17

Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	95.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1984	122.4	97.3	113.0	94.2	84.4	107.4	86.7	88.1	103.6	88.9	104.0	77.4	110.5	93.9	97.8	84.3
1984																
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
September	127.3	96.7	112.0	92.1	83.6	106.2	85.9	87.1	103.2	88.9	103.1	76.9	109.3	93.2	96.9	85.6
October	128.5	96.6	112.0	93.6	83.7	106.3	85.7	85.3	103.2	88.7	103.2	77.0	109.8	93.4	97.1	85.6
November	126.8	96.5	112.5	95.0	84.0	106.7	85.6	85.2	103.4	89.3	103.5	77.4	110.2	94.2	95.5	85.1
December	129.5	96.7	112.0	94.8	83.6	106.1	86.0	83.7	103.2	89.3	103.0	77.8	109.5	94.5	95.5	85.0
1985																
January	132.0	96.9	110.5	93.8	83.7	106.2	86.3	81.0	103.4	89.9	103.0	78.1	107.8	95.0	95.7	85.0
February	136.4	95.3	110.0	86.8	83.5	105.8	85.4	81.4	103.3	89.3	102.5	77.6	105.9	94.4	95.8	85.5
March	136.9	93.2	111.3	81.5	83.7	105.7	83.7	84.0	103.0	89.0	102.5	77.2	105.8	94.3	95.7	84.6
April	131.7	93.6	111.5	74.2	84.5	106.7	83.0	88.1	103.8	89.2	102.9	77.5	108.0	94.5	96.0	83.6
May	132.0	92.9	111.5	76.3	84.4	106.5	82.9	89.2	103.5	89.0	102.9	76.5	107.4	93.7	96.0	83.8
May 3	132.8	93.3	111.7	74.2	84.2	106.2	83.0	88.3	103.8	89.2	102.7	77.2	107.5	93.9	96.0	83.8
10	133.3	92.8	111.7	77.3	84.3	106.5	82.8	88.2	103.0	88.8	102.8	76.3	106.9	93.7	95.7	83.5
17	131.0	92.9	111.3	77.3	84.5	106.7	83.0	89.4	103.4	89.1	103.0	76.6	107.8	94.0	95.7	83.7
24	130.9	93.0	111.3	77.3	84.4	106.6	82.5	89.7	103.8	89.0	102.9	76.8	107.5	94.4	96.0	83.8
31	131.5	92.6	111.3	74.7	84.5	106.6	82.8	90.2	103.1	88.9	103.1	76.1	107.5	93.8	95.8	83.6
June 7	130.6	93.1	112.1	74.1	84.5	106.6	83.0	89.9	103.8	89.1	103.1	76.2	107.5	94.4	96.0	83.8
14	131.1	93.1	112.1	74.8	84.4	106.4	83.3	90.0	103.5	88.8	103.0	75.5	107.3	94.2	95.9	83.8

Real effective exchange rates — industrial countries

Index numbers, 1980-82 average=100.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	89.4	99.6	103.0	93.0	102.1	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.8	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	102.1	96.6	100.0	96.1	99.3	100.1	92.0	101.7	92.0	101.8	90.6	104.4	98.8	101.3	91.5
1984	118.2	101.2	97.6	105.1	96.9	96.6	101.1	89.3	102.7	90.6	100.1	95.0	99.5	96.5	100.1	96.9
1984																
June	116.4	99.9	97.7	103.6	97.6	97.1	101.3	89.7	103.1	90.8	100.9	95.8	99.1	97.2	101.3	95.3
July	120.0	99.5	95.4	101.1	97.9	96.6	101.7	89.0	103.0	90.8	100.3	95.1	96.7	95.3	99.1	97.0
August	119.5	101.2	96.0	103.3	97.2	96.1	101.5	89.4	103.0	91.3	99.9	94.3	97.3	95.8	98.5	97.8
September	121.5	101.4	96.8	103.7	96.3	95.2	101.0	88.3	102.0	90.3	99.2	95.6	97.9	97.2	99.5	98.9
October	123.7	100.4	96.0	105.0	96.5	95.3	100.8	86.9	101.8	90.2	98.9	96.0	98.8	96.7	100.1	99.2
November	122.1	100.4	96.2	106.4	97.1	95.4	101.2	86.9	102.5	90.8	98.8	97.0	98.7	98.0	98.3	98.3
December	124.0	101.1	95.7	106.6	98.1	94.6	101.5	85.4	102.3	90.4	98.2	97.6	98.0	98.2	98.0	98.7
1985																
January	126.2	101.4	94.1	105.4	97.1	95.0	102.6	83.3	102.4	91.3	97.6	98.6	96.3	97.8	97.4	99.4
February	129.8	100.0	93.5	97.4	97.2	94.7	101.7	84.0	102.0	90.7	96.5	98.6	94.9	96.3	98.1	100.3
March	129.8	98.0	94.1	91.6	97.4	94.3	100.9	86.8	101.6	90.3	96.1	98.4	95.8	97.6	98.5	99.1
April	125.1	98.2	93.7	83.3	98.3	95.0	100.5	91.7	102.1	90.3	96.0	98.3	97.7	97.8	98.7	97.9
May	125.0	97.7	93.4	85.6	98.2	94.7	100.9	93.2	101.8	90.1	95.5	98.6	97.5	96.8	98.8	98.5

Real effective exchange rates — developing countries

Index numbers, 1980-82 = 100

	Argentina	Brazil	Chile	Colombia	Mexico r	Peru	Venezuela	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Israel	Turkey r
1980	116.4	84.8	95.3	94.7	104.0	93.1	91.3	98.4	89.6	95.9	96.2	93.3	98.6	100.9	92.9	100.2
1981	107.7	103.2	108.1	100.4	114.1	103.2	99.6	99.4	99.6	101.2	99.3	101.2	102.7	102.6	99.3	104.4
1982	75.9	112.0	96.5	104.9	81.9	103.8	109.1	102.2	110.8	102.9	104.5	105.5	98.7	96.5	107.7	95.4
1983	71.2	85.6	88.8	104.0	78.0	97.7	116.1	96.6	95.7	97.3	112.7	95.1	97.1	93.1	119.5	92.8
1984	79.9	85.5	89.8	99.3	91.5	105.8	85.6	100.3	96.8	95.8	119.0	107.4	95.8	95.4	118.3	90.6
1984																
May	83.6	81.0	89.9	99.9	87.9	103.7	74.1	97.7	95.6	94.8	118.0	110.9	95.9	94.1	116.7	90.2
June	83.4	83.4	90.3	99.0	90.0	106.9	77.3	98.2	96.5	95.1	118.4	101.0	95.2	94.5	117.5	91.6
July	85.6	86.4	91.3	99.5	90.9	108.7	79.6	100.5	98.8	96.0	120.7	104.7	95.6	96.6	117.6	90.7
August	85.7	86.3	92.4	99.3	91.3	109.1	83.6	100.8	97.4	96.2	121.3	106.4	96.2	97.5	119.1	91.8
September	88.7	88.6	93.0	100.1	94.2	109.7	85.8	103.6	97.4	97.6	123.3	113.8	96.9	98.9	122.0	94.0
October	82.0	89.9	89.6	98.4	96.3	107.9	87.6	105.3	97.8	97.2	120.9	112.4	96.0	98.1	122.1	94.5
November	73.7	88.5	88.1	97.4	95.8	104.8	87.8	104.6	96.5	96.2	119.5	109.0	94.9	96.6	122.1	95.4
December	76.1	91.1	87.0	98.0	96.1	101.6	89.2	107.0	98.7	96.8	120.7	112.0	95.3	97.3	114.3	95.6
1985																
January	75.0	94.1	88.1	98.9	97.7	98.3	91.3	108.6	100.0	96.8	121.9	118.3	95.4	98.1	109.5	98.1
February	75.0	93.2	89.5	99.8	100.2	97.0	93.6	111.4	101.2	97.8	120.4	123.6	95.5	99.4	119.6	102.4
March	76.5	96.7	82.9	96.6	100.9	92.2	94.5	111.3	100.0	96.1	119.8	123.5	95.5	98.6	116.1	101.9
April	76.2	88.9	81.6	91.4	99.1	91.0	92.8	108.0	98.8	92.0	119.5	122.3	94.1	95.8	112.6	96.2

International banking market size

at end of period, billions of dollars

	1980r	1981r	1982r	1983	1984			
				Decr	Marr	Junr	Sepr	Dec
Gross claims								
Eurocurrencies, on residents and nonresidents	**1 563**	**1 929**	**2 146**	**2 253**	**2 339**	**2 330**	**2 322**	**2 352**
On nonbanks	431	557	634	665	685	679	676	684
On banks	1 132	1 372	1 512	1 588	1 654	1 651	1 646	1 668
In dollars	1 173	1 504	1 694	1 797	1 841	1 850	1 857	1 887
In other currencies	390	425	452	456	498	480	465	465
Domestic currencies, on nonresidents	**345**	**365**	**398**	**398**	**400**	**406**	**393**	**397**
On nonbanks	139	128	132	136	136	140	138	137
On banks	206	237	266	262	264	266	255	260
In dollars	173	188	211	217	206	218	208	210
In other currencies	172	177	187	181	194	188	185	187
Total	**1 908**	**2 294**	**2 544**	**2 651**	**2 739**	**2 736**	**2 715**	**2 749**
On nonbanks	570	685	766	801	821	819	814	821
On banks	1 338	1 609	1 778	850	1 918	1 917	1 901	1 928
In dollars	1 346	1 692	1 905	2 014	2 047	2 068	2 065	2 097
In other currencies	562	602	639	637	692	668	650	652
Gross liabilities								
Eurocurrencies, to residents and nonresidents	**1 578**	**1 954**	**2 168**	**2 278**	**2 362**	**2 360**	**2 349**	**2 383**
To nonbanks	278	372	432	479	500	503	492	500
To official monetary institutions	128	112	91	88	85	88	94	96
To other banks	1 172	1 470	1 645	1 711	1 777	1 769	1 763	1 787
In dollars	1 193	1 539	1 741	1 846	1 882	1 905	1 912	1 949
In other currencies	385	415	427	432	480	455	437	434
Domestic currencies, to nonresidents	**280**	**283**	**250**	**258**	**262**	**277**	**274**	**277**
To nonbanks	82	74	70	71	71	71	72	77
To banks	198	189	180	187	191	206	202	200
In dollars	135	126	116	133	128	140	140	143
In other currencies	145	137	134	125	134	137	134	134
Total	**1 858**	**2 217**	**2 418**	**2 536**	**2 624**	**2 637**	**2 623**	**2 660**
To nonbanks	360	446	502	550	571	574	564	577
To banks and official institutions	1 498	1 771	1 916	1 986	2 053	2 063	2 059	2 083
In dollars	1 328	1 665	1 857	1 979	2 010	2 045	2 052	2 092
In other currencies	530	552	561	557	614	592	571	568
Net market size	**957**	**1 155**	**1 285**	**1 385**	**1 403**	**1 421**	**1 408**	**1 421**

International bond issues and bank credits

millions of dollars

	1982	1983	1984	1985			Jan-May	
				Mar	Apr	May	1985	1984
By country of borrower								
Industrial countries	**108 772**	**102 652**	**177 077**	**10 786**	**17 234**	**16 883**	**79 226**	**81 746**
Australia	7 213	5 737	5 816	873	838	698	3 701	1 776
Austria	2 068	1 290	2 254	356	112	241	1 045	1 181
Belgium	1 528	2 168	1 847	116	336	21	988	467
Canada	15 856	8 571	13 124	1 092	400	579	7 443	4 474
Denmark	2 725	3 941	4 825	74	440	222	1 453	2 505
Finland	1 446	1 271	1 713	139	60	56	660	743
France	14 813	8 626	11 298	1 172	914	208	4 780	4 053
Germany	1 101	3 197	2 165	—	50	287	727	1 032
Greece	808	1 291	1 551	—	200	450	1 119	550
Ireland	1 136	1 869	1 377	—	191	39	631	227
Italy	6 687	4 876	6 933	1 095	1 958	771	6 578	1 960
Japan	8 397	14 428	17 526	1 403	1 763	1 425	9 000	9 379
Netherlands	1 000	1 213	1 973	14	133	123	514	1 527
New Zealand	4 786	802	3 208	121	—	266	751	675
Norway	2 601	1 969	1 324	172	135	—	620	541
Portugal	1 684	1 030	1 796	549	68	138	1 017	603
South Africa	1 889	1 300	1 422	—	201	73	475	829
Spain	2 675	4 977	4 931	125	616	695	2 346	3 104
Sweden	3 181	7 144	11 256	1 068	512	2 639	5 459	4 133
United Kingdom	2 836	2 726	8 899	559	2 198	3 648	7 869	3 770
United States	21 109	20 276	65 054	1 587	5 829	4 160	21 181	36 509
*Other**	3 233	3 950	6 785	232	282	128	872	1 685
Developing countries	**49 023**	**38 256**	**39 725**	**2 413**	**1 687**	**3 402**	**10 519**	**21 938**
Latin American countries	**29 667**	**15 592**	**17 464**	**381**	**286**	**152**	**1 167**	**11 653**
Argentina	1 565	1 750	4 212	—	—	—	—	12
Brazil	5 972	4 475	6 649	—	—	—	—	6 500
Chile	1 194	1 405	784	—	—	—	—	784
Colombia	776	552	589	—	—	52	52	229
Mexico	9 968	5 138	3 918	—	—	—	—	3 800
Venezuela	7 241	237	—	—	—	—	—	—
*Other***	2 951	2 035	1 312	381	286	100	1 115	328
Asian countries	**11 723**	**12 978**	**15 893**	**1 976**	**811**	**2 196**	**6 400**	**6 650**
India	555	968	945	25	21	—	338	300
Indonesia	1 822	2 363	1 924	—	—	400	400	872
Korea	3 277	4 387	6 201	965	418	429	2 209	2 731
Malaysia	2 872	2 197	2 605	600	92	120	930	1 339
Philippines	888	878	925	—	—	925	925	—
Thailand	414	747	1 221	150	—	75	625	430
Other	1 895	1 438	2 072	236	280	248	973	978
Middle Eastern and African countries	**7 633**	**9 686**	**6 368**	**55**	**590**	**1 055**	**2 952**	**3 635**
Algeria	86	1 993	821	—	—	700	1 300	20
Nigeria	2 069	2 343	985	—	—	—	—	985
Turkey	277	1 106	741	51	500	28	579	600
Other	5 201	4 244	3 821	5	90	327	1 074	2 030
Eastern European countries	**1 479**	**1 294**	**3 244**	**562**	**480**	**—**	**1 577**	**1 622**
Hungary	340	741	1 386	39	25	—	294	885
Soviet Union	1 131	93	1 051	—	333	—	539	528
*Other****	8	460	807	523	122	—	745	209
International organizations***	**11 353**	**16 201**	**13 287**	**1 558**	**1 706**	**2 499**	**8 886**	**5 172**
By type of instrument and currency								
International bond issues	**78 042**	**76 329**	**107 411**	**9 845**	**12 347**	**16 636**	**66 132**	**44 069**
Eurobonds	51 645	48 501	79 458	7 946	9 816	14 504	55 153	30 061
U.S. dollar	43 959	38 428	63 593	5 835	7 125	11 325	42 640	23 612
German mark	2 588	3 817	4 604	82	435	1 133	2 866	1 963
British pound	748	1 947	3 997	914	433	525	2 261	1 716
Japanese yen	374	212	1 212	117	478	180	1 866	305
European composite units	1 980	2 019	3 032	404	738	658	2 532	1 427
Other	1 996	2 078	3 020	594	607	682	2 989	1 038
Foreign bonds	26 397	27 828	27 953	1 898	2 531	2 132	10 978	14 008
U.S. dollar	5 946	4 545	5 487	315	308	509	1 957	3 268
German mark	2 952	2 671	2 243	232	145	65	689	908
British pound	1 214	811	1 292	—	92	—	157	627
Swiss franc	11 432	14 299	12 626	971	862	1 031	4 807	6 768
Japanese yen	3 418	3 772	4 628	234	1 195	387	2 653	1 677
Other	1 435	1 730	1 677	147	129	140	716	760
International bank credits	**92 585**	**82 074**	**125 922**	**5 475**	**8 760**	**6 129**	**34 077**	**66 409**
Eurocurrency credits	85 015	74 222	112 605	4 590	8 548	5 676	31 623	61 954
Foreign credits	7 570	7 852	13 317	884	212	453	2 454	4 455
Total	**170 627**	**158 403**	**233 333**	**15 319**	**21 107**	**22 765**	**100 209**	**110 478**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1981	1982	1983	1984		1985				
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May
Eurodollar										
overnight	12.87	9.25	9.50	8.69	8.63	8.50	8.44	8.81	8.31	7.50
one month	13.31	9.13	9.59	8.81	8.38	8.31	8.88	8.69	8.38	7.56
three months	13.75	9.19	9.81	9.06	8.63	8.44	9.44	9.00	8.69	7.63
six months	14.81	9.50	10.06	9.50	9.13	8.69	10.00	9.44	9.00	7.88
twelve months	14.75	9.63	10.38	10.06	9.81	9.31	10.75	10.13	9.75	8.38
Euro-Canadian dollar										
one month	15.37	10.00	9.13	10.88	9.88	9.63	10.38	10.38	9.50	9.50
three months	15.37	10.00	9.50	10.50	10.81	9.63	11.19	10.56	9.81	9.50
six months	16.37	10.13	9.75	10.56	10.06	9.63	11.75	10.69	10.38	9 63
twelve months	16.37	10.25	10.00	10.56	10.44	9.88	12.06	12.00	10.75	9.94
Euro-French franc										
one month	15.75	23.00	12.13	10.69	10.69	10.31	10.63	10.63	10.31	10.13
three months	17.00	24.00	12.19	10.88	10.69	10.56	11.00	10.81	10.44	10.25
six months	18.00	22.00	12.31	11.19	11.00	11.00	11.44	11.25	10.75	10.38
twelve months	18.25	19.75	12.63	11.63	11.38	11.63	11.88	11.56	10.94	10.63
Euromark										
one month	10.44	5.88	5.25	5.56	5.50	5.75	5.81	5.69	5.75	5.50
three months	10.50	5.88	5.88	5.56	5.50	6.00	6.06	5.88	5.81	5.50
six months	10.56	5.94	6.13	5.63	5.56	6.06	6.38	6.06	5.88	5.56
twelve months	10.25	6.00	6.38	5.69	5.56	6.13	6.56	6.25	6.06	5.56
Euro-Dutch guilder										
one month	10.75	5.13	5.81	5.63	5.69	6.00	6.81	6.69	6.94	7.00
three months	10.75	5.19	6.00	5.81	5.75	6.13	7.06	6.81	6.94	6.88
six months	10.75	5.38	6.25	5.88	5.81	6.19	7.13	6.88	6.94	6.88
twelve months	10.75	5.63	6.38	6.00	5.94	6.31	7.31	6.94	7.00	6.81
Euro-Swiss franc										
one month	8.87	2.81	3.38	5.13	4.44	5.38	5.50	5.19	5.00	5.13
three months	9.25	3.25	3.75	4.94	4.56	5.38	5.75	5.50	5.19	5.13
six months	9.25	3.44	3.94	4.94	4.63	5.31	5.81	5.56	5.25	5.06
twelve months	8.50	3.44	3.94	4.94	4.69	5.19	5.63	5.44	5.25	5.00
Eurosterling										
one month	15.37	10.56	9.13	9.69	9.50	13.13	14.00	13.56	12.75	12.63
three months	15.69	10.44	9.31	9.69	9.88	12.50	13.88	13.13	12.69	12.44
six months	15.69	10.31	9.50	9.81	10.00	11.94	13.13	12.31	12.44	12 50
twelve months	15.37	10.31	9.81	10.00	10.19	11.88	12.69	11.94	12.13	12.01
Euroyen										
one month	6.12	6.75	6.25	6.50	6.19	6.19	6.50	6.25	6.13	6.31
three months	6.12	6.75	6.31	6.31	6.19	6.31	6.38	6.31	6.25	6.25
six months	6.87	7.10	6.38	6.31	6.13	6.25	6.31	6.31	6.31	6 25
twelve months	6.87	6.81	6.44	6.31	6.13	6.25	6.31	6.31	6.31	6.31
European currency unit										
one month	14.63	12.44	8.81	9.19	9.25	9.94	9.94	10.00	9.38	9.31
three months	14.75	12.31	9.19	9.31	9.38	9.94	10.06	10.13	9.56	9.31
six months	15.00	12.00	9.44	9.38	9.50	9.94	10.13	10.13	9.69	9.38
twelve months	14.56	11.19	9.63	9.69	9.63	9.94	10.13	10.25	9.88	9.50

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years at or near end of month

	1982	1983	1984		1985				
	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May
United States companies									
Eurodollar	11.16	11.59	11.17	11.25	11.05	11.65	11.73	11.24	10.58
Euromark	7.24	7.34	7.08	6.95	7.19	7.57	7.35	7.11	6.90
Swiss franc	5.70	5.83	5.70	5.73	5.85	5.95	5.86	5.74	5.69
European governments									
Eurodollar	12.53	12.65	12.00	12.04	11.72	12.40	12.29	11.97	11.20
Euromark	8.10	8.12	7.43	7.39	7.54	7.88	7.61	7.54	7.37
Swiss franc	5.40	5.63	5.43	5.24	5.17	5.35	5.34	5.21	5.20
European currency unit	n.a.	11.77	10.79	10.64	10.62	10.65	10.44	10.39	10.10

Central bank discount rates

at or near end of month

	1981	1982	1983	1984	1985					Current	
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun 20 1985	effective since
United States	12.00	8.50	8.50	8.00	8.00	8.00	8.00	8.00	7.50	7.50	May 17, 85
Canada	14.66	10.05	9.96	10.09	9 75	11.52	10.65	10.02	9.76	9.57	Jun 20, 85
Austria	6.75	4.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	9.50	9.25	Jun 3, 85
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	8.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	Feb 1, 85
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	16.50	14.00	12.25	14.00	14.00	14.00	14.00	12.75	12.75	12.75	Apr 19, 85
Italy	19 00	18.00	17.00	16.50	15 50	15.50	15.50	15.50	15.50	15.50	Jan 4, 85
Netherlands	9.00	5.00	5.00	5.00	5.00	5.50	5.50	5.50	5.50	5.50	Feb 1, 85
Norway	9.00	9 00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	9 50	9.50	9.50	9.50	9.50	11.50	11.50	May 14, 85
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	9.38	13.75	13.75	13.75	12.25	12.25	12.25	Apr 19, 85
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	15.45	18.50	21.75	22.75	22.33	22.33	21.25	20.25	19.25	Jun 14, 85
Argentina*	8.20	10.56	15.10	18.19	19.06	19.06	20.78	25.82	32.50	n.a.	May 1, 85
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	12.11	11.32	11.33	11.91	n.a.	n.a.	n.a.	Mar, 85
Singapore	9.50	7.00	7.00	6.75	6.50	6.50	6.50	6.00	5.50	5.50	May 21, 85
Thailand	14.50	12.50	13.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	Nov, 84
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	10.00	10.00	9.00	9.00	May 28, 85

*Percent per month.

Day-to-day money rates

monthly averages

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	12.37	8.95	9.47	9.99	9.43	8.38	8.35	8.50	8.58	8.27	7.97
Canada	14.53	10.63	8.78	11.95	11.22	10.50	9.75	9.88	10.41	10.25	9.75
Austria	7.50	6.00	5.75	6.75	7.25	7.63	6.75	6.50	6.75	6.38	6.13
Belgium	12.45	9.29	7.39	9.43	10.07	9.12	9.22	8.99	9.13	9.45	8.84
Finland	11.30	11.50	16.70	15.75	15.48	15.07	14.57	14.18	14.00	13.96	13.80
France	15.46	12.88	12.27	11.04	11.18	10.95	10.56	10.65	10.67	10.48	10.17
Germany	10.58	6.15	5.61	5.61	5.51	5.62	5.52	5.78	5.85	5.70	5.67
Ireland	16.88	14.54	12.19	13.50	14.25	14.50	14.63	14.75	14.63	13.63	n.a.
Italy	20.63	19.00	17.88	17.38	17.25	17.25	16.06	16.00	16.00	15.77	15.46
Netherlands	10.67	5.31	5.84	5.90	5.57	5.60	5.78	5.75	6.93	6.74	7.15
Norway	18.60	11.00	12.30	12.90	13.10	12.50	10.70	12.80	11.60	13.40	13.00
Spain	18.73	15.81	16.77	10.87	12.96	12.11	11.35	12.12	11.99	10.42	n.a.
Sweden	13.95	9.31	11.52	12.56	11.64	11.88	10.58	13.50	13.50	13.49	14.95
Switzerland	3.38	1.25	1.88	2.00	1.50	1.50	2.63	1.75	2.50	2.00	2.25
United Kingdom	9.13	6.70	7.78	7.38	7.55	6.31	7.38	11.94	10.60	12.38	11.26
Argentina*	12.84	11.04	4.56	10.61	10.92	10.88	10.89	11.14	13.34	14.78	15.12
Japan	6.70	6.92	6.44	6.15	6.10	6.41	6.17	6.16	6.42	6.07	6.01
South Africa	12.75	14.15	16.06	21.50	21.50	21.13	22.19	21.56	21.50	21.50	19.81
Argentina	6.98	12.77	14.65	17.75	17.75	17.75	18.63	18.63	20.35	23.74	32.00
Brazil	103.74	150.42	184.69	328.87	244.59	272.02	378.76	287.93	337.15	n.a.	n.a.
Hong Kong	10.75	9.13	13.90	8.47	7.23	6.80	6.94	6.18	6.15	7.21	5.88
Korea	14.40	13.84	11.40	11.30	10.90	10.00	8.90	9.30	9.70	9.80	9.50
Philippines	14.70	16.12	31.18	40.09	32.17	15.22	23.15	19.80	27.80	23.97	n.a.
Singapore	3.96	11.45	7.05	7.54	6.29	6.01	5.40	6.07	5.30	4.69	5.75

*Percent per month.

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	11.90	8.15	9.28	9.69	8.71	7.99	7.88	8.87	8.42	8.08	7.63
Canada	14.41	9.80	9.71	11.46	10.50	9.84	9.50	11.27	10.40	9.77	9.51
Belgium	16.22	12.42	11.00	11.15	10.90	10.90	10.85	10.85	10.60	9.63	9.13
Ireland	18.13	15.25	12.01	13.24	14.80	15.10	14.59	14.54	13.77	12.62	n.a.
Italy	21.36	19.11	16.95	15.30	14.90	14.69	13.75	13.46	13.38	14.31	14.22
Netherlands	9.75	5.63	5.63	5.63	5.63	5.88	6.31	6.51	6.75	7.00	6.75
Spain	n.a.	15.28	14.46	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	n.a.	12.90	11.75	11.83	12.04	11.83	13.53	14.28	14.33	14.47	16.48
United Kingdom	15.35	9.96	9.04	10.13	9.27	9.33	11.89	13.91	12.77	12.26	12.16
Australia	13.27	9.39	8.54	10.75	10.98	12.27	12.22	13.51	14.82	14.72	14.25
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	13.50	13.50	13.50	17.50	17.45	19.50	23.40	21.00
South Africa	14.55	14.62	18.43	23.03	21.82	21.94	23.05	23.01	22.45	21.92	18.78
Brazil	92.62	115.40	179.15	273.03	273.03	273.03	273.03	273.03	273.03	n.a.	n.a.
Mexico	33.23	57.44	53.78	46.67	47.06	48.67	48.07	50.00	58.15	57.69	63.34
Philippines	13.22	14.54	15.99	46.30	48.67	47.14	35.69	30.92	34.29	34.22	n.a.
Singapore	3.03	2.74	2.59	3.01	2.80	2.91	2.93	2.93	2.97	2.94	3.07

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	12.96	8.94	9.89	9.73	8.97	8.34	8.17	9.18	8.94	8.39	7.70
Canada	15.25	9.95	9.87	11.80	10.80	10.10	9.65	11.80	10.55	10.20	9.80
Belgium	16.00	12.35	11.00	11.00	10.75	10.70	10.70	10.70	10.45	10.10	9.25
France	15.25	12.75	12.19	10.18	10.56	10.69	10.31	10.69	10.63	10.31	10.25
Germany	10.50	6.20	6.30	6.05	5.80	5.75	5.85	6.25	6.20	5.90	5.80
Ireland	18.50	15.75	12.19	13.75	15.38	15.13	14.63	14.75	13.75	12.75	n.a.
Italy	21.00	19.00	17.88	17.25	17.25	17.25	16.00	16.13	15.75	15.25	15.00
Netherlands	11.00	5.25	6.00	6.06	5.94	5.75	6.50	7.19	6.88	7.13	6.94
Portugal	13.80	15.05	24.11	24.52	24.51	24.57	24.57	24.53	24.61	24.52	n.a.
Spain	15.52	16.55	18.48	12.54	12.95	12.13	12.27	12.22	12.15	12.34	n.a.
Switzerland	10.12	3.88	3.88	5.25	5.00	5.00	5.63	6.13	5.75	5.38	5.38
United Kingdom	15.69	10.50	9.31	10.56	9.72	9.88	12.50	13.88	13.06	12.56	12.44
Australia	16.00	10.65	9.50	11.30	11.75	12.50	13.55	14.60	15.60	15.70	15.05
Japan	6.30	6.80	6.42	6.30	6.30	6.29	6.26	6.32	6.27	6.25	6.25
New Zealand	16.05	16.75	12.10	16.25	15.25	15.25	18.75	22.75	25.00	23.50	23.20
South Africa	15.47	15.26	19.12	23.56	22.11	22.78	24.07	24.12	23.50	22.09	19.35
Chile	30.46	55.90	20.68	43.80	46.24	20.68	20.68	30.42	27.86	38.93	32.85
Hong Kong	14.18	10.13	12.84	10.13	8.76	8.26	7.85	7.64	8.28	7.35	6.96
Indonesia	14.48	18.50	19.50	20.00	19.00	19.00	19.00	20.50	22.00	19.00	18.00
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	15.00	10.00	10.30	9.50	9.30	10.01	9.50	12.00
Philippines	17.70	15.96	15.61	31.23	38.67	33.21	29.38	26.95	24.73	23.43	n.a.
Singapore	7.81	8.69	8.44	7.38	6.69	7.00	6.03	6.44	6.06	5.31	5.25
Taiwan	10.94	9.94	7.65	5.17	6.17	8.07	6.78	9.14	7.76	6.45	6.98
Thailand	14.29	12.25	16.00	14.00	12.00	12.00	14.00	17.75	16.50	16.00	n.a.

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	12.62	8.25	9.70	9.95	8.85	8.35	8.06	9.22	8.80	8.25	7.50
Canada	15.20	9.85	9.82	11.75	10.75	10.05	9 60	11.75	10 50	10.15	9.75
Austria	9.63	5.25	6.50	7.38	7.63	7.50	6.94	6.88	6.88	6.88	6.50
Belgium	15.50	12.25	11.25	10.75	10.63	10.63	10.75	10.87	10.25	9.50	9.00
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	4.75
France	9.16	8.24	7.66	7.08	7.14	7.04	6.85	6.90	6.90	6 82	6.67
Germany	9.50	6.00	5.90	5.40	5.30	5.25	5.35	5 55	5.70	5.45	5.30
Ireland	18.38	15.25	11.75	13.25	14.75	14.63	14.25	14.25	13 50	12.00	n.a.
Italy	13.25	13.25	13.25	11.64	11.64	11.64	11.00	11.00	10.96	10.96	10.88
Netherlands	11.00	5.38	6.13	6.00	5.81	5.69	6.38	7.06	6.81	7.00	6.81
Norway	12.75	13.50	12.75	12.75	12.75	12.75	12.25	13.00	12.75	12.75	12.40
Portugal	14.00	15.00	21.50	28.00	28.00	27.00	27.00	27.00	n.a.	n.a.	n.a.
Spain	11.78	12 53	12.62	11.76	11.67	11.64	11.34	11.02	10.80	n.a.	n.a.
Sweden	12.65	12.15	11.70	11.50	11.50	11.45	13.10	13.65	13.70	13.77	16.13
Switzerland	8.75	3.00	3.50	4.75	4.63	4.50	5 00	5.75	5.25	4 88	4.88
United Kingdom	15.69	10.31	9.31	10.44	9.75	9.88	13.13	13.75	13.00	12.50	12.38
Australia	15.65	10.20	10.40	11.22	11.46	12.75	13.78	13.82	14.95	15.55	14.93
Japan	6.50	7.00	6.50	6.42	6.43	6.38	6 42	6.50	6 36	6.36	6.36
New Zealand	15.50	16.50	11.50	15.00	15.50	15.25	17.00	18.75	20.00	23.00	23.50
South Africa	14.75	15.25	20.13	23.58	22.00	22.88	24.13	23.75	23.63	22.25	20.25
Argentina*	7.13	8.50	14.50	26.30	23.42	31.23	23.42	23.01	25.89	29.59	32.88
Brazil	110.05	21.00	23.00	26.00	26.50	27.00	26.00	25.50	26.50	n.a.	n.a.
Chile	32.24	47.09	20.57	47.81	52.68	20.68	20.19	30.29	n.a.	38.61	32.85
Hong Kong	12.50	7.50	9.00	8.00	7.50	7.00	5.50	5.50	5.00	4.50	4.00
Korea	14.40	7.60	7.60	6.00	6.00	6 00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	10.08	10.02	9.58	9 50	9.50	9.66	9.42	9.67
Mexico	31.82	52.54	57 15	47.63	47.45	47.45	47.45	47.45	51.89	54.50	55.90
Philippines	13.35	14.10	14.96	29.37	32 47	31.01	27.07	24.36	22.12	23.88	n.a.
Singapore	7.50	8.25	7.44	7.01	6.19	6.13	5 44	6.01	5.82	5.01	4.88
Taiwan	10.75	7.50	7.00	6.75	6.50	6.50	6.50	6.50	6.25	6.25	6.25
Thailand	10.00	10.00	10.00	13.00	13.00	13.00	13.00	13.00	13.00	16.00	n.a.
Venezuela	14.75	15.50	12.00	13.00	13.00	12.50	12.00	13.00	11.50	11.50	n.a.

*Percent per month.

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	14.33	10.61	12.00	11.86	11.64	11.61	11.28	12.09	11 92	11.64	10.71
Canada	15.27	11.69	12.02	12.18	11.81	11.66	11.38	12.30	11.93	11.50	10.76
Austria	10.37	8.81	8.02	8.10	8.07	8.04	8.00	8.00	8.06	8.06	7.93
Belgium	13.99	12.66	11.89	11.74	11.47	11.56	11.56	11.58	11.50	11 49	10.78
Denmark	20.91	20.14	12.96	14.63	14.92	14.60	13 66	13.74	13.33	12.87	12.26
Finland	10.98	10.64	11.16	10.85	10.84	10.73	10.84	10.91	10.39	10.34	10.45
France	16.44	15.40	13.96	12.02	12.36	12.70	12.12	12.25	12.27	11.98	11.72
Germany	9.71	7.90	8.38	7.53	7.20	7.17	7.35	7.71	7.44	7.30	7.10
Ireland	18.28	14.54	14.25	14.99	15.25	14.90	14.57	14.74	13.55	13.08	n.a.
Italy	21.39	19.70	17.69	15.32	15.23	14.52	13.22	13.25	13.48	13.53	n.a.
Netherlands	11.28	8.18	8.58	7.94	7.65	7.72	7.42	7.93	8.06	7.73	7.58
Norway	12.37	13.32	12.50	12.00	12.00	12.00	12.50	12.00	12.38	12.38	12.38
Portugal	17.39	16.63	22.11	20.84	21.21	22.23	20.34	20.69	20.21	n.a.	n.a.
Spain	16.20	15.92	17.25	15.49	14.96	13.93	13.29	13.44	13.49	n.a.	n.a.
Sweden	12.80	13.01	12.30	12.34	12.16	12.04	12 39	13.23	12.93	13.42	13.70
Switzerland	5.40	4.22	4.54	4.89	4.77	4.78	4.74	4.91	4.88	4.81	4.79
United Kingdom	15.02	10.62	9.94	10.19	9.96	10.25	10.65	10.56	10.34	10.42	10.51
Australia	15.00	13.00	13.65	13.30	13.30	13.40	13.12	13.70	13.85	14.05	13.70
Japan	8.11	7.96	7.45	7.11	6.61	6.36	6.37	7.19	6.97	6.85	6 60
New Zealand	12.55	12.84	10.50	16.65	16 60	16 90	17.09	17.35	17.50	18.35	18.25
South Africa	13.33	11.31	13.64	16.80	15.90	16.55	17.25	17.85	16.85	16.40	15.85
Philippines	13.01	13.64	14.47	27.31	34.77	18.54	21.15	24.20	13.69	12.75	n.a.
Venezuela	12.50	15.00	13.50	14.50	14.50	14.00	13.00	13.50	13.00	12.50	n.a.

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	15.75	11.50	11.00	12.00	11.25	10.75	10.50	10.50	10.50	10.50	10.00
Canada	17.25	12.50	11.00	12.50	12.00	11.25	11.00	11.50	11.75	10.75	10.50
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	14.00	14.00	14.00	14.00	14.00	14.00	13.50	12.50
Denmark	15.00	14.00	10.00	10.00	10.50	10.50	10.50	10.50	11.00	10.50	10.50
Finland	9.84	8.95	10.18	10.55	10.63	10.68	10.69	10.30	10.36	10.38	n.a.
France	14.00	12.25	12.25	12.00	12.00	12.00	11.50	11.50	11.50	11.50	11.25
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	15.75	15.75	15.75	15.75	14.50	n.a.
Italy	22.50	20.75	18.75	18.00	18.00	18.00	17.00	17.00	17.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.50	6.50	6.25	6.75	7.75	7.50	7.13	7.75
Norway	13.75	14.50	13.50	13.25	13.00	13.00	11.50	12.88	12.50	12.50	12.90
Portugal	20.50	23.50	30.00	29.00	29.00	29.00	29.00	29.00	29.00	n.a.	n.a.
Spain	17.04	19.00	20.85	14.11	14.29	13.68	13.73	13.71	13.57	13.75	n.a.
Sweden	15.00	13.00	13.50	14.50	14.50	14.50	14.50	14.50	14.50	14.50	16.25
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	10.50	9.50	9.50	12.00	14.00	13.00	12.50	12.50
Australia	15.75	15.00	12.75	13.00	13.00	13.50	14.25	14.75	16.00	16.50	16.75
Japan	6.95	6.28	5.89	5.71	5.71	5.70	5.70	5.70	5.70	5.70	5.70
New Zealand	13.00	13.00	11.00	13.50	14.00	14.00	14.00	15.00	17.00	n.a.	25.00
South Africa	17.00	18.00	20.00	25.00	23.50	24.00	25.00	25.00	25.00	25.00	23.00
Argentina*	7.61	9.00	15.50	27.12	24.25	32.05	24.25	23.84	26.71	32.47	37.81
Brazil	152.40	23.81	24.00	30.00	30.50	31.00	30.00	29.50	30.50	n.a.	n.a.
Chile	49.54	64.11	30.90	60.34	69.81	60.82	47.30	47.54	n.a.	51.16	46.15
Hong Kong	16.00	10.50	13.50	12.00	11.50	11.00	10.00	10.00	9.50	9.00	8.50
Indonesia	19.25	22.00	19.75	26.00	23.50	23.50	22.50	22.50	23.50	23.00	22.00
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Mexico	31.81	46.12	56.44	49.34	48.31	47.54	47.17	47.33	49.36	51.93	53.76
Philippines	18.00	18.00	18.00	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Singapore	11.83	9.33	8.98	10.33	9.88	9.40	9.08	9.03	9.03	8.73	8.48
Taiwan	15.25	10.75	10.25	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	17.00	16.50	16.50	16.50	16.50	17.00	17.00	n.a.
Venezuela	15.50	17.00	16.00	15.00	16.00	16.00	15.00	15.00	14.00	13.50	n.a.

*Percent per month.

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984			1985				
	Dec	Dec	Dec	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
United States	15.50	11.75	12.63	12.63	12.37	12.25	12.00	13.00	12.50	12.38	11.25
Canada	16.18	12.74	12.89	12.90	12.62	12.42	12.08	12.95	12.46	12.24	11.34
France	17.33	15.86	14.35	12.72	12.75	12.94	12.44	12.66	12.54	12.40	12.20
Germany	10.50	8.20	8.30	7.60	7.30	7.20	7.20	7.20	7.30	7.30	7.20
Netherlands	11.03	7.80	8.51	7.77	7.61	7.51	7.33	8.00	8.22	7.87	7.62
Norway	13.36	14.13	13.25	12.75	12.75	12.75	12.75	12.75	13.25	13.25	13.25
Spain	14.76	17.10	19.84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sweden	12.94	13.37	12.21	13.19	13.21	12.33	12.34	12.67	13.31	13.19	13.80
Switzerland	n.a.	5.80	4.92	5.17	5.09	5.09	5.06	5.16	5.24	5.14	5.11
United Kingdom	16.55	12.34	11.57	11.79	11.45	11.64	12.06	11.98	11.55	11.56	11.61
Japan	7.70	7.55	7.09	6.99	6.51	6.21	6.46	6.98	6.93	6.82	6.70
Korea	26.90	16.00	14.20	14.60	14.90	15.00	14.70	14.70	14.70	14.60	14.70
Venezuela	17.00	18.00	18.00	19.00	18.00	18.00	18.00	18.00	18.00	17.00	n.a.

Key to data in tables

I. International markets

Data on the *international banking market size* are based on resident and nonresident Eurocurrency (i.e., foreign currency) assets and liabilities and on nonresident domestic currency assets and liabilities of banks in nearly all European countres, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States. All assets and liabilities of international banking facilities (IBFs) of banks in the United States are treated as Eurocurrencies.

An *international bond issue* may be either a Eurobond issue or a foreign bond issue. A *Eurobond issue* is one placed principally in countries other than that of the currency in which the bond is denominated, usually through an international syndicate. A *foreign bond issue* is one issued by a nonresident borrower on the market of a single country and denominated in that country's currency. Data on new international bond issue volume include all publicly announced issues of straight bonds, convertibes, bonds with warrants, floating rate notes, and certificates of deposit with an original maturity of three years or more (one year or more beginning in 1985), whether publicly or privately placed.

An *international bank credit* may be either a Eurocurrency credit or a foreign credit. A *Eurocurrency credit* is one denominated in a currency that is foreign to the country of the bank office extending the credit. *A foreign credit* is one extended to a nonresident borrower and denominated in the domestic currency of the country in which the bank office extendng the credit is located. Data on new international bank credit volume include all publicly announced bank credits with an original maturity of one year or more (term loans, revolving lines of credit, and facilities to back up the issuance of other financial instruments such as commercial paper, short-term notes, certificates of deposit and banker's acceptances).

Data on international bond issues and bank credits through 1984 were compiled by Morgan Guaranty Trust Company. Beginning in January 1985 these data are based on figures published in the OECD's *Financial Statistics Monthly*.

II. Domestic markets

Central Bank discount rates

Rates shown are the official discount rates with the exception of:

Ireland — Short Term Facility rate.

South Africa — discount rate for 90 day banker's acceptances.

United Kingdom — rate of discount for outright purchases of 15-33 day bank bills.

Day-to-day money rates

Argentina—7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — day-to-day loan rate in the call money market.

Brazil — interbank overnight money.

Canada—chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48-hour call money.

Japan—Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — new issue of 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month central bank exchequer bills at tender.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 rates refer to the weighted average interest rate on 91- to 183-day Treasury bills sold to banks under negotiated basis.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Soain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — Central bank 60-day fixed rate promissory notes (PDBC) at tender.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month "gen-saki" rate.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines—weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank until August 1984. New series as of September 1984, 30-day acceptances maximum interest rate.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month deposits.

Italy — 3-month time deposits of Llt. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit until September 1983. New series as of October 1983, 3-month promissory notes.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — Weighted average interest rates on 60- to 90-day time deposits of sample commercial banks.

Portugal — 90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore — 3-month certificates of deposit.

South Africa — 3-month negotiable certificate of deposit.

Key to data in tables — continued

Spain — Deposits over 6 months and less than 1 year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgium National Bank secondary market average yield on Central government bonds of more than 5 years' maturity quoted on Brussels Stock exchange.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — INSEE secondary market weighted average yield of public sector bonds with a remaining maturity of 10 years or more.

Germany — Frankfurter Allgemeine Zeitung 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — Average yield of national government bonds with maturities of 10 years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for Central Bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE secondary market weighted average yield of private company bonds with a remaining maturity of 10 years or more.

Germany — Bundesbank secondary market weighted average yield of industrial bonds with a remaining maturity of more than 3 years.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6%-6.5% corporate bonds until December 1981. As of January 1982, CBS secondary market weighted average yield on all commercial bank issues with a quotation between 92% and 103%.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — Financial Times secondary market average yield of industrial and financial company debentures and loan stocks with an average of 25 years to maturity.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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